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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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[X] Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended: March 31, 1992

[ ] Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from: _____ to _____

Commission File No.: 0-14053

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KIRSCHNER MEDICAL CORPORATION
(Exact name of registrant as specified in i-

DELAWARE
(State or other jurisdiction of incorporation or organization)

52-1319702
(I.R.S.Employer Identification No.)

9690 DEERECO ROAD
TIMONIUM, MARYLAND 21093
(Address of principal executive offices)

(410) 560-3333
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days:

Yes [X] No [ ]

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock as of the latest practicable date.

Common Stock $.10 par value, outstanding as of May 13, 1992 - 2,493,108 shares

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KIRSCHNER MEDICAL CORPORATION
CONSOLIDATED BALANCE SHEETS

	March 31, 1992 (UNAUDITED)	December 31, 1991 (AUDITED)
ASSETS		
Current assets:		
Cash	$ 461,000	$ 1,492,000
Accounts receivable	21,779,000	21,007,000
Inventories (note 2)	27,391,000	27,747,000
Prepaid expenses	935,000	418,000
Total current assets	50,566,000	50,664,000
Property, plant and equipment:		
Property, plant and equipment, at cost	18,529,000	18,898,000
Less accumulated depreciation and amortization	(6,986,000)	(6,652,000)
Property, plant and equipment, net	11,543,000	12,246,000
Intangible assets, net	9,360,000	9,489,000
Other assets	2,132,000	2,291,000
Total assets	$73,601,000	$74,690,000
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Short-term debt	$18,684,000	$20,566,000
Current portion of long-term debt	22,837,000	24,005,000
Current portion of capital lease obligations	475,000	543,000
Accounts payable	5,143,000	4,607,000
Accrued liabilities	7,619,000	6,432,000
Income taxes payable	847,000	681,000
Total current liabilities	55,605,000	56,834,000
Long-term liabilities:		
Long-term debt	11,000	12,000
Capital lease obligations	2,035,000	2,270,000
Other	149,000	181,000
Total long-term liabilities	2,195,000	2,463,000
Deferred income taxes	465,000	499,000
Shareholders' equity:		
Preferred stock, no par value; authorized 200,000 shares; none issued	-	-
Common stock, $.10 par value, authorized 10,000,000 shares; issued 2,493,108 shares at March 31, 1992 and 2,483,608 shares at December 31, 1991	249,000	248,000
Additional paid-in capital	27,784,000	27,689,000
Cumulative foreign currency translation adjustments	1,477,000	2,136,000
Accumulated deficit	(14,174,000)	(15,179,000)
Total shareholders' equity	15,336,000	14,894,000
Total liabilities and shareholders' equity	$73,601,000	$74,690,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

KIRSCHNER MEDICAL CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
(UNAUDITED)

	Three months ended March 31, 1992	1991
Revenues	$18,595,000	$18,095,000
Cost of sales	7,181,000	7,556,000
Gross profit	11,414,000	10,539,000
Operating expenses:		
Selling	5,364,000	5,278,000
Administrative	2,643,000	2,238,000
Research and development	757,000	543,000
Total operating expenses	8,764,000	8,059,000
Operating profit	2,650,000	2,480,000
Net interest expense and other	1,324,000	1,453,000
Income before income tax provision and extraordinary item	1,326,000	1,027,000
Provision for income taxes	513,000	357,000
Income before extraordinary item	813,000	670,000
Extraordinary item	192,000	-
Net income	$ 1,005,000	$ 670,000
Earnings per share:		
Income before extraordinary item	$ .32	$ .27
Net income	$ .39	$ .27
Weighted average common and common equivalent shares outstanding	2,577,000	2,479,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PAR OF THE CONSOLIDATED FINANCIAL STATEMENTS.

KIRSCHNER MEDICAL CORPORATION
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(UNAUDITED)

	Three months ended March 31, 1992	1991
Common stock:		
Balance at beginning of period	$ 248,000	$ 245,000
Issuance of 37,000 shares in 1991	-	3,000
Issuance of 9,500 shares in 1992	1,000	-
Balance at end of period	$ 249,000	$ 248,000
Additional paid-in capital:		
Balance at beginning of period	$ 27,689,000	$ 27,511,000
Additional paid-in capital in connection with issuance of 37,000 shares	-	162,000
Additional paid-in capital in connection with issuance of 9,500 shares	95,000	-
Balance at end of period	$ 27,784,000	$ 27,673,000
Cumulative foreign currency translation adjustments:		
Balance at beginning of period	$ 2,136,000	$ 2,366,000
Translation adjustments during period	(659,000)	(969,000)
Balance at end of period	$ 1,477,000	$ 1,397,000
Accumulated deficit:		
Balance at beginning of period	$(15,179,000)	$(19,380,000)
Net income	1,005,000	670,000
Balance at end of period	$(14,174,000)	$(18,710,000)
Treasury stock:		
Balance at beginning of period	$ -	$ (75,000)
Proceeds from sale of 2,490 shares	-	39,000
Balance at end of period	$ -	$ (36,000)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

KIRSCHNER MEDICAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	Three months ended March 31, 1992	1991
Cash flows from operating activities:		
Net income	$ 1,005,000	$ 670,000
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	442,000	507,000
Amortization	203,000	175,000
Loss on sale of assets	3,000	14,000
Changes in certain assets and liabilities:		
Accounts receivable	(1,911,000)	(3,449,000)
Inventories	(473,000)	912,000
Prepaid expenses and other assets	(472,000)	(443,000)
Accounts payable and accrued liabilities	2,008,000	1,826,000
Income taxes payable	207,000	56,000
Net cash provided by operating activities	1,012,000	268,000
Cash flows from investing activities:		
Capital expenditures	(135,000)	(208,000)
Proceeds from sale of property and equipment	384,000	-
Other	9,000	-
Net cash provided by (used for) investing activities	258,000	(208,000)
Cash flows from financing activities:		
Net proceeds (repayments) of short-term debt, including net borrowings under line of credit agreements	(1,166,000)	282,000
Proceeds from long-term debt	41,000	-
Repayment of long-term debt	(1,122,000)	(326,000)
Principal payments under capital lease obligations	(144,000)	(164,000)
Proceeds from issuance of common stock	96,000	165,000
Proceeds from sale of treasury stock	-	39,000
Net cash used for financing activities	(2,295,000)	(4,000)
Net effect of exchange rate changes on cash	(6,000)	(7,000)
Net increase (decrease) in cash	(1,031,000)	49,000
Cash at beginning of period	1,492,000	459,000
Cash at end of period	$ 461,000	$ 508,000

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE CONSOLIDATED FINANCIAL STATEMENTS.

KIRSCHNER MEDICAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

NOTE 1 - PRINCIPLES OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in accordance with instructions to Form 10-Q and do not include all of the information and notes required by generally accepted accounting principles. In the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation have been included. Interim results are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and notes thereto included in the Company's 1991 Annual Report on Form 10-K.

NOTE 2 - INVENTORIES

Inventories are comprised of the following:

	March 31, 1992	December 31, 1991
Finished goods	$13,964,000	$14,979,000
Work in process	8,250,000	7,346,000
Raw materials	5,177,000	5,422,000
Total inventories	$27,391,000	$27,747,000

NOTE 3 - SUPPLEMENTAL STATEMENT OF CASH FLOWS INFORMATION

	Three months ended March 31, 1992	1991
Cash paid for:		
Interest	$ 1,338,000	$ 1,641,000
Income taxes	113,000	316,000
Additions to obligations under capital leases	-	228,000

NOTE 4 - LITIGATION

Legal actions filed by alleged shareholders between March 22, 1990 and April 25, 1990 are pending against the Company and certain of its then directors and officers with respect to alleged violations of federal securities laws and state common laws.

On July 30, 1991, a legal action was filed with the American Arbitration Association in Washington, D.C. against the Company by the former owners of M.P. Video, Inc., a wholly-owned subsidiary of the Company, alleging securities fraud and breach of contract.

In the opinion of management, after consultation with counsel, the ultimate outcome of these actions cannot be presently determined, nor can any possible estimate of loss, if any, be made.

The Company intends to continue to defend these cases vigorously.

KIRSCHNER MEDICAL CORPORATION
MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION

Results of Operations
Three Months Ended March 31, 1992 and 1991

The following table presents the Company's operating results as a percentage of revenues:

	Three Months Ended March 31,	
	1992	1991
Revenues	100.0%	100.0%
Cost of sales	38.6	41.7
Gross profit	61.4	58.3
Selling expense	28.9	29.2
Administrative expense	14.2	12.4
Research and development expense	4.1	3.0
Operating profit	14.2	13.7
Net interest expense and other	7.1	8.0
Income before income tax provision and extraordinary item	7.1	5.7
Provision for income taxes	2.7	2.0
Income before extraordinary item	4.4	3.7
Extraordinary item	1.0	-
Net income	3.4%	3.7%

Income before extraordinary item was $813,000 or $.32 per share as compared to $670,000 or $.27 per share for the same quarter of the prior year.

Revenues increased by 3% to $18,595,000 compared to $18,095,000 in the first quarter of 1991. Reconstructive implant and fracture fixation product sales increased by $741,000 or 6% over the first quarter of 1991. For this comparison, sales of veterinary orthopedic products of $455,000 in the first quarter of 1991 were excluded, as the product line was sold by the Company in December 1991. Continued increases in sales of the Company's Performance Knee products were partially offset by reduced sales in certain other reconstructive implant and fracture fixation products.

The remaining increase in total revenues was due primarily to increased sales of orthopedic support products. Sales of medical video endoscopy systems were approximately the same as the previous year's quarter.

Gross profit for the three months ended March 31, 1992 was 61% of sales compared to 58% for the same quarter of the prior year. The increase was due primarily to improved margins on sales of reconstructive implant and fracture fixation products.

Total operating expenses increased by $705,000 or 9% over the same period last year. Administrative expenses accounted for 57% of the dollar increase and research and development expenses accounted for 30%. The increase in administrative expenses was due primarily to office relocation costs associated with the sale of the Company's Timonium, Maryland facility as well as an increase in professional fees related to the Company's efforts to raise capital to solve its liquidity problems. Research and development expenses increased mostly due to royalties on increased sales of the Company's Performance Knee product.

Net interest expense and other decreased by $129,000 due primarily to lower interest rates and the repayment of debt to the Company's primary lender over the last twelve months.

The effective income tax rate for the quarter ended March 31, 1992 was 39% as compared to 35% for the same period last year. The increase is due to the higher proportion of domestic taxable income, which is taxed at higher rates than foreign taxable income.

The extraordinary item for the three months ended March 31, 1992 represents the reduction of income taxes arising from the utilization of prior years' U.S. net operating loss carryforwards.

In February 1992, the Financial Accounting Standards Board issued Statement 109, "Accounting for Income Taxes," which supersedes Statement 96 of the same title, and which is effective for fiscal years beginning after December 15, 1992, or earlier at the Company's option. Statement 109 employs an asset and liability approach in accounting for income taxes payable or refundable at the date of the financial statements as a result of events that have been recognized in the financial statements and as measured by the provisions of enacted tax laws. The Company has not determined whether Statement 109 will be adopted before 1993 and whether it will be adopted on a prospective or retroactive basis. However, adoption is not expected to have a material impact on the Company's financial position and results of operations.

Liquidity and Capital Resources

Current liabilities exceeded current assets by $5,039,000 at March 31, 1992 and by $6,170,000 at December 31, 1991. The decrease in the working capital deficit was due primarily to the principal payments made on the Company's term loan with its primary lender.

The Company is required to make scheduled mandatory prepayments of its senior debt obligations pursuant to the loan agreement with the Company's primary lender. The prepayments are due on June 30, 1992, September 30, 1992 and December 31, 1992 in the amounts of $3,500,000, $10,000,000 and $1,700,000, respectively. Management believes that the Company will be unable to make these mandatory prepayments without obtaining additional capital.

The Company's subsidiary in Spain, IQL, continues to experience severe cash constraints largely as a result of slow payments from various Spanish governments. IQL continues to obtain working capital by factoring accounts receivable with a Spanish bank and by borrowing from various banking institutions and private lenders. Approximately $1,600,000 of cash was obtained by IQL during the first quarter of 1992 through the factoring agreement. As of the date of this report, certain of IQL's borrowing arrangements with various banking institutions had matured and remain unpaid. No events of default have been declared by the lenders with respect to these loans. The lenders have verbally extended the due dates while the Company negotiates renewals or payment schedules. In addition, the maturity of a long-term note in the amount of 95 million Spanish pesetas (approximately $923,000 as of May 1, 1992) previously due on May 30, 1992 has been extended by the lender to August 31, 1992 in consideration for the granting of a security interest in the Company's Madrid, Spain sales office property.

A $5,453 000 subordinated note issued to Minnesota Mining and Manufacturing Company ("3M") was due on March 23, 1990 but was not paid on such date. The Company used $500,000 of the proceeds from the sale of its discontinued operations in 1990 to reduce the balance to $4,953,000. The Company is current on its quarterly interest payments to 3M. The note is subordinate to all senior debt obligations and cannot be declared in default or accelerated without the primary lender's prior consent.

The Company is currently operating with a limited amount of cash and its continued existence is dependent upon its ability to resolve its liquidity problems and meet its debt obligations. The Company is continuing its efforts to obtain additional capital in order to meet its debt obligations and refinance its existing senior indebtedness. The successful realization of these efforts is critical to the resolution of the Company's liquidity problems. However, there is no assurance that sufficient additional capital will be obtained or that the Company will be able to refinance its existing debt.

PART II

OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None

ITEM 2. CHANGES IN SECURITIES

None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

None

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

KIRSCHNER MEDICAL CORPORATION
(Registrant)

By _____
C. Scott Harrison, M.D.
President, CEO and
Chairman of the Board

By _____
Lewis E. S. Parker
Senior Vice President, Chief
Financial Officer and
Treasurer

Date: 5/13/92